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Energy Security: A Global Challenge

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By
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Central Asia and Caucasus Energy

INSS Conference

Security & Energy Security: Global Challenges

Emerging regional energy security issues: Central Asia & the Caucasus
September 29, 2009

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The Caspian Sea and Its Neighbors – Defining the Energy Context

- **Five littoral energy-producing countries: Russia, Azerbaijan, Iran, Turkmenistan, and Kazakhstan**
 - Uzbekistan: secondary, doubly-landlocked energy producer
 - Georgia: key transit country, now and perhaps in future, if Nabucco project moves forward
- **Tensions exist...but markets trump militarism**
 - *Energy* issues unlikely to lead to conflict between states
 - Oil is a world market, natural gas fast becoming one, market forces rule
 - Weak price environment to 2012 and perhaps beyond

Existing Energy Issues

Unlikely to Lead to Conflict

- **Caspian Seabed delimitation elusive**
 - Median-line division or equal percentages?
 - Azeri-Turkmen-Iran competing claims, but moving toward joint development
- **Russian opposition to TC pipelines**
 - Does Moscow have an effective threat to exercise/prevent construction?
- **World's most polluted body of water**
 - Dealing with externalities: how share costs and benefits of treating?
 - Collaborative efforts difficult

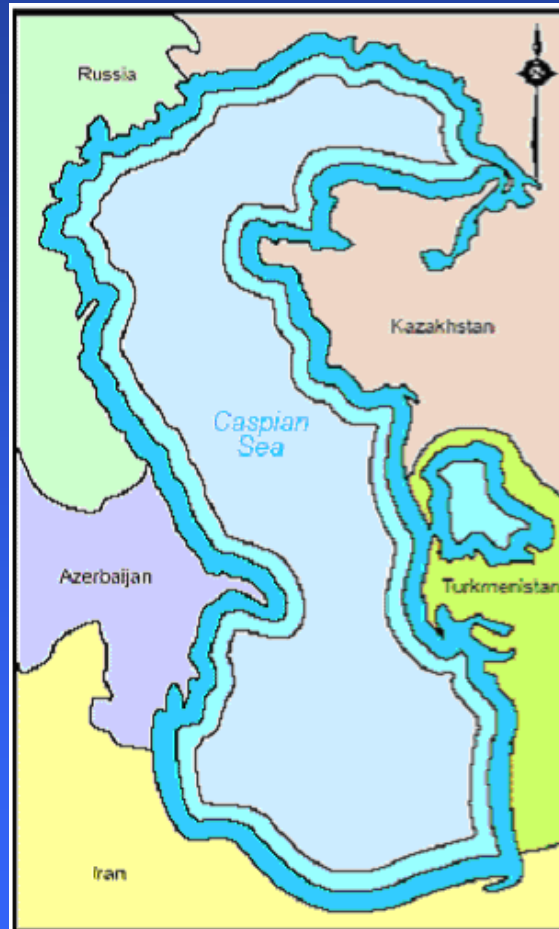
Caspian Sea Delimitation Alternatives

Condominium

Median Line

Joint Sovereignty

Division



20 Miles - Territorial
20 Miles - EEZ (Economic Exclusive Zone)



Azerbaijan's Version
Turkmenistan's Version
Iran's Version

1. ACG fields 2. Kyapaz-Serdar 3. Alov

Existing Energy Issues – 2

- **Turkmenistan** – shut out of Russian gas market, seeking Eastern and Western buyers, as well as greater sales to Iran
- **Uzbekistan** – most populated, autocratic but weak, inward-looking
 - Not perceived as looking to dominate region
 - Decaying Soviet-legacy energy infrastructure
 - Close ties to Russia

Existing Energy Issues – 3

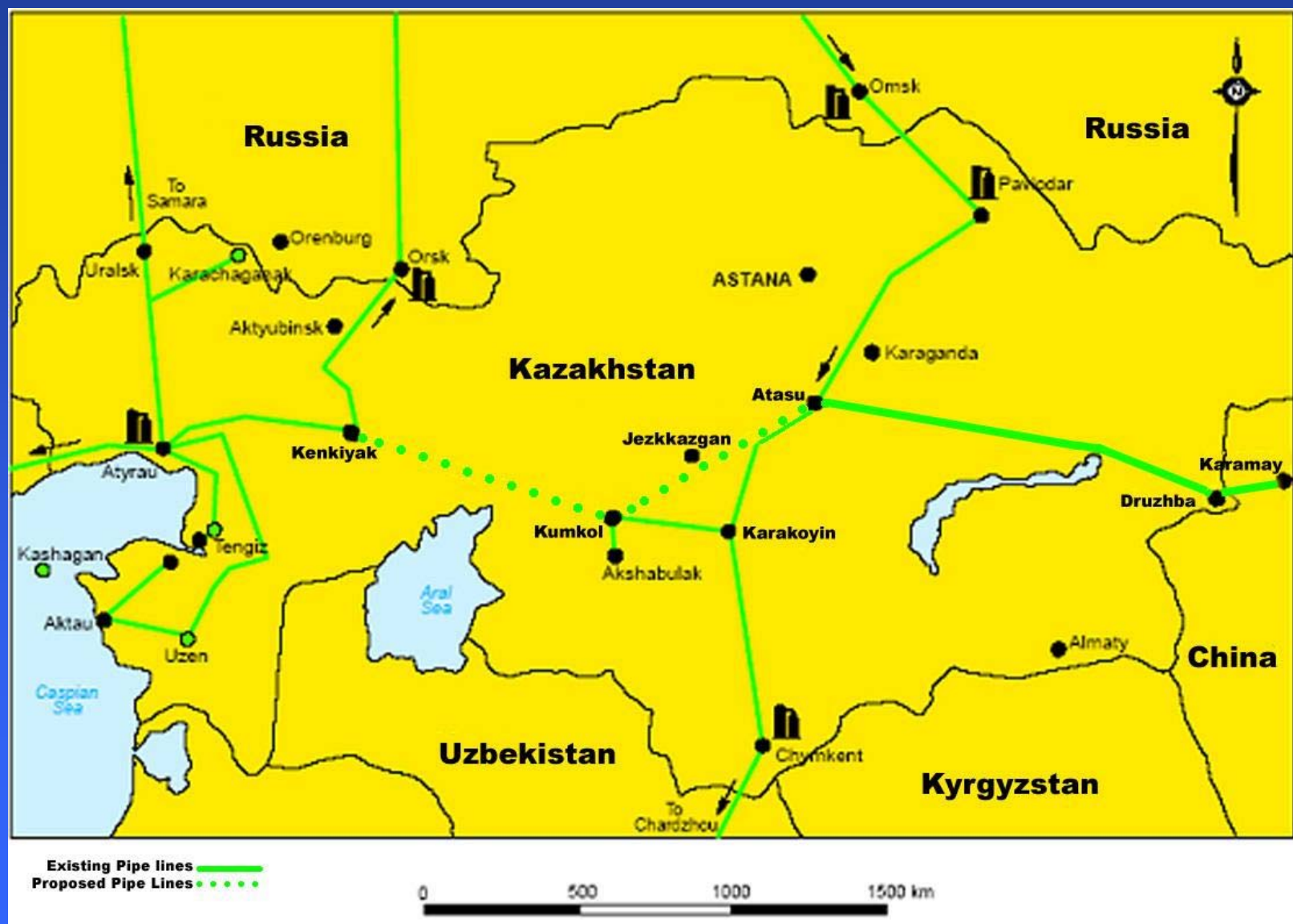
- **Kazakhstan**

- Pushing foreign energy consortia to deliver
- Stiffer commercial terms
- Not interested in TC gas pipeline
- Pursuing KCTS oil shuttle tanker system
- Dependent on CPC oil pipeline through Russia to Black Sea and Bosphorus
- Oil pipeline to China underway – permits choice of sales to East or West

Kazakh Oil Tanker Shuttles – the Future



Kazakhstan Oil Pipeline to China

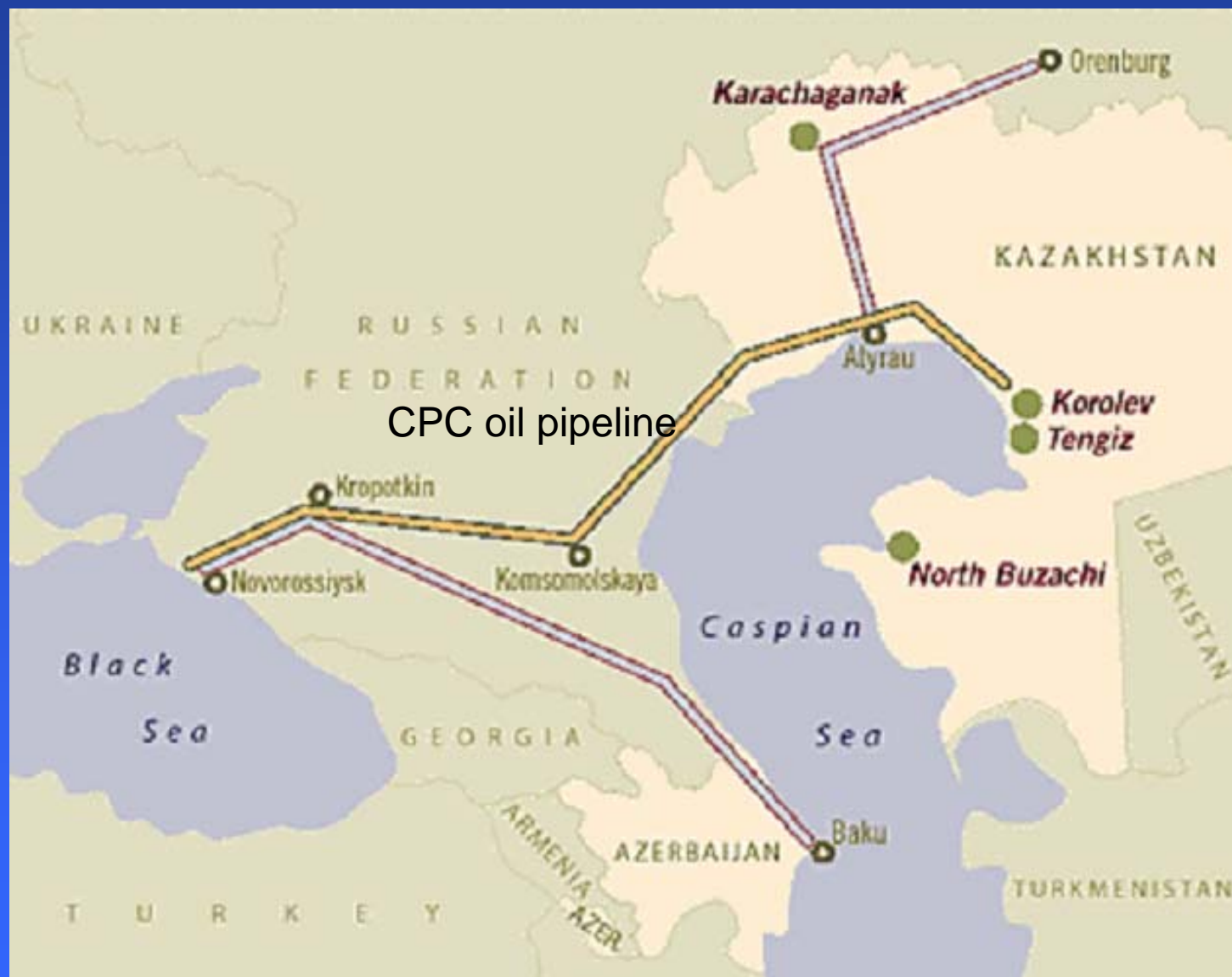


Existing Energy Issues – 4

- **Russia**

- Wooing Central Asian gas with proposed Pre-Caspian pipeline; uncertain timing of Yamal development for future EU sales
- Chafes at existing private CPC oil pipeline
- Formerly sole buyer of Central Asian gas and oil, but now new role of China as purchaser
- War with Georgia in 2008 NOT over energy matters – avoidance of damage to BTC or gas pipelines
 - Hostilities could happen again

CPC Oil Pipeline to the West



Existing Energy Issues – 5

- **Iran**

- Occupied with other issues
- Potential major gas exporter – political differences with West, decaying infrastructure, pains of sanctions
- Still holding out for 20% of Caspian seabed
- Buying more Turkmen gas

Existing Energy Issues – 6

- **Azerbaijan**

- Perennial risk of conflict over N-K, but not for energy reasons; AZ military not equal to Armenian military
- BTC oil pipeline (2006) avoids N-K – could be impacted by conflict

- **Georgia**

- Russia seen as bully for Tbilisi's western leanings – secessionist provinces and Georgian loss of territorial integrity, but frictions not over energy

BTC Pipeline Route



China and India

- Rising energy demand and growing GDP
- Their companies active in the region
- Involved in low-risk fields, selling on world market, or selling to China through new/proposed oil/gas pipelines
- Host governments happy to have them as source of revenues
- China/India activities enhance world energy security

Governance

- **Central Asian and Caucasus “republics” – no democratic roots**
- **Exception may be Azerbaijan – sole EITI compliant country; attempt to shed light on where funds arise and how spent (PWYP)**
- **Riding/monetizing the oil & gas wave**
- **Western organizations give very poor ratings**

Future Maturity and Accountability?

- **Lower energy prices hurt leadership; high prices enhance ability to act as “rentier state”**
 - Revenues accrue to state and are used to bribe/pay off elites and clans
- **West cannot dictate forms of governance**
- **Perhaps at least another generation necessary for first signs of genuine democracy and accountability/transparency**
- **Authoritarian rentier states in this region unlikely to engage in *energy* conflict**
 - Shared fields increasingly agreed for (or moving toward) joint development

Conclusion

- **Conflict unlikely due to energy issues**
 - Other issues could result in internal or external conflict, thus reducing future energy investment flows
- **Energy an important source of income**
 - Goal to monetize resources rapidly on world markets – weak price environment to 2012
 - Cooperation on cross-border fields
 - Unresolved delimitation of Caspian Sea has not affected project development (exception is TC pipelines)
 - China active developer – adds to energy security
- **Serious governance issues**
- **Pollution of Sea yet to be addressed**